Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 2/20/2003

GAIN Report #JA3701

Japan

Food Processing Ingredients Sector

Market Brief for Japanese Food Processing Sector

2003

Approved by:
Daniel A. Martinez, Director, ATO Osaka
U.S. Consulate, Osaka-Kobe

Report Highlights:
This report was prepared by the USDA's Foreign Agricultural Service for U.S. exporters of food and agricultural products. This information is in the public domain and may be reprinted without permission. Use of commercial or trade names does not imply approval nor constitute endorsement by USDA/FAS.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Osaka ATO [JA3], JA

I. MARKET SUMMARY 3

II. ROAD MAP FOR MARKET ENTRY 4
A. ENTRY STRATEGY 4
B. MARKET STRUCTURE 5
C. COMPANY PROFILES 6
D. SECTOR TRENDS 10

III. COMPETITION 12

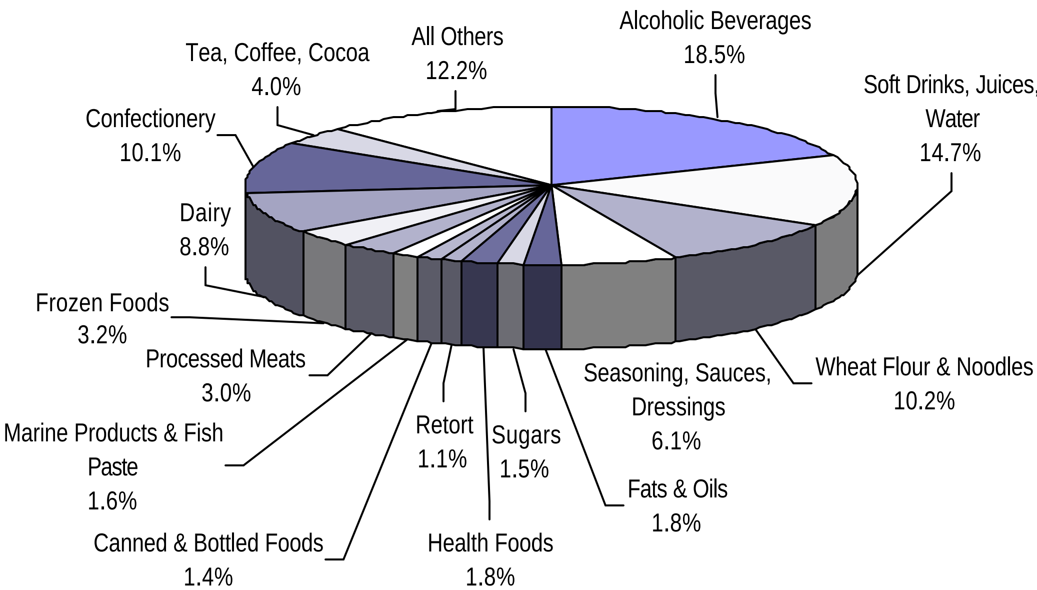
IV. BEST PRODUCT PROSPECTS 14
A. PRODUCTS PRESENT IN THE MARKET WHICH HAVE GOOD SALES POTENTIAL 14
B. PRODUCTS NOT PRESENT IN SIGNIFICANT QUANTITIES BUT WHICH HAVE GOOD SALES POTENTIAL 16
C. PRODUCTS NOT PRESENT BECAUSE THEY FACE SIGNIFICANT BARRIERS 18

V. POST CONTACT AND FURTHER INFORMATION 19

I. MARKET SUMMARY

The Japanese food processing sector is a large but mature market. The value of the Japanese food processing industry, including beverages, was estimated at US$196 billion (23.6 trillion yen, $1=120 yen) in 2001 on an FOB plant basis. This has shown little change over the past five years.

Japan Food Processing Industry Sub-Sectors *



* Value Basis - 2001
Source: Shurui Shokuhin Tokei Geppo, January 2002

It is estimated that there are 43,000 companies in the food processing industry, many quite small, employing 1.2 million workers in total.

Due to a lack of arable farmland and high production costs, Japan has historically been a major net importer of basic foodstuffs for use in further processing. The U.S., China, Australia, Canada and Thailand are the major agricultural exporters to Japan. The total value of exported agricultural food products in 2001 from the U.S. accounted $11.1 billion.

Key market drivers for the food processing sector include:

Increasing importance of health and functional foods, especially as the Japanese population ages.

Deflationary economic environment, causing processors to seek out lower cost food inputs, especially imports, to remain competitive.

Heightened consumer concerns for food safety as a result of food scares over the past few years.

Continuing internationalization of the Japanese diet, and growing popularity of “ethnic foods” from outside Japan.

Increasing emphasis on convenience and ready-to-eat food.

Increasing number of Japanese food processors establishing production facilities outside Japan to

take advantage of lower costs and to expand their global reach.

#Increasingly stringent government controls related to food safety issues.

Advantages	Challenges
U.S. food products have a positive image for safety issues compared to many other Asian countries	Higher costs for U.S. exports due to the strong dollar and high labor costs relative to Asian producers are making products less competitive
The U.S. has a reputation and history as a reliable supplier of food inputs (availability and delivery)	Consumers perceive Japanese food production to be safer than imports, including the U.S.
The success of U.S. fast food chains help introduce American style inputs into the general diet	Tighter Japanese government regulatory enforcement is making it more difficult and riskier to export to Japan

II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

There is no magic formula for entering the Japanese market. Strategies will vary depending on the type of product and competitive environment. However the following steps are recommended for new-to-market exporters considering Japan for the first time.

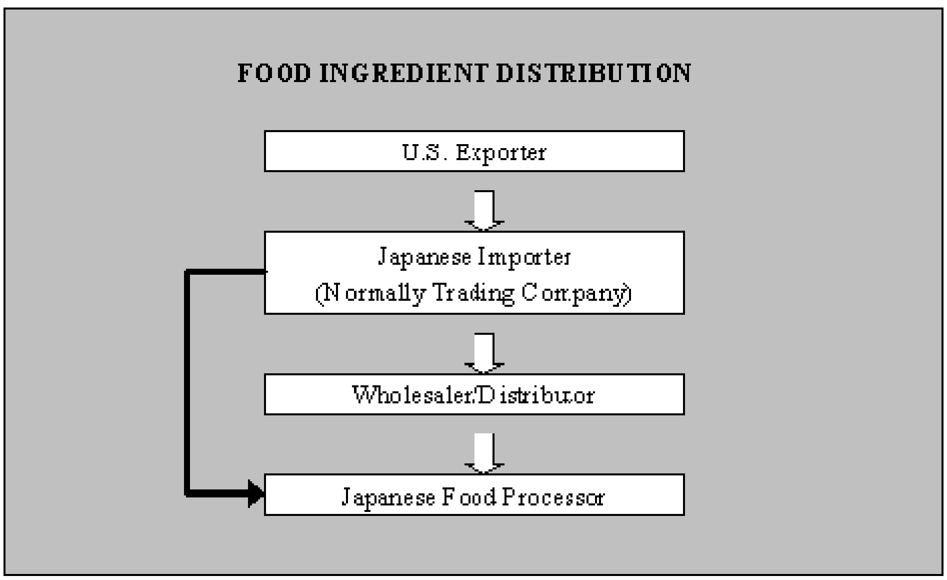
1. Utilize the resources of groups such as U.S. market development cooperators (Cooperators), ATOs, and local State Departments of Agriculture for information and leads as a way to get started.
2. Visit Japan and explore first hand what the opportunities are.
3. Visit with Japanese importers that handle your category of products.
4. Talk with potential customers to determine what your sales potential is and how they normally source product.
5. Participate in food shows appropriate for your products. The ATO can provide a list of shows such as Foodex and the Food Ingredients Show.
6. Research food laws and regulations that apply to your product.
7. Meet with potential on-site representatives, including importers and food consulting companies.
8. Follow-up requests for samples and pricing quickly.
9. When appointing agents, be sure your partner has a good reputation and track record in the marketplace.
10. Make sure you are willing and able to make products that are appropriate for the Japanese market, including taste and packaging, at competitive prices.
11. Be aware that Japan is a very service oriented culture, and requires quick response to both

product complaints and requests for information.

12. Be aware that many Japanese companies are looking for a long-term relationship rather than one-time purchase and consequently partners who are trustful, reliable and flexible.

B. MARKET STRUCTURE

Most imported food ingredients enter Japan through trading companies. Large trading companies generally have divisions specializing in specific food categories while smaller importers tend to specialize in a limited product line. The trading companies act as legal importers of the product and serve the function of clearing customs, warehousing the product, and financing the inventory. As a general rule products pass from trading companies to wholesalers/distributors. In recent years some large end–user customers have begun to import product directly, by-passing trading companies, but this is still the exception.



The Japanese distribution channel was relatively static until the early 1990's. Traditionally, Japanese domestic food ingredient suppliers have used wholesalers and distributors to sell their products. Over the past few years, however, some suppliers have begun selling directly to end-user customers, by-passing local wholesalers, in order to save costs.

Food processors sell their products to a variety of sectors, including the Hotel, Restaurant, and Institution Foodservice market, the retail market and other industrial food processors. The Japanese food service market is large and well developed with annual estimated sales of $240 billion (28.9 trillion yen). The retail market is composed of supermarkets, department stores, convenience stores and specialty shops and has annual sales of approximately $470 billion (56.5 trillion yen) for foods, beverages and general merchandising products. Major food processors in Japan purchase food ingredients normally through trading companies giving product specifications they desire.

C. COMPANY PROFILES

Below is a table with a profile of the top twenty food processors in Japan. Information includes company's sales, the main end-use channels, production location, and procurement channels. In many cases the companies have branched out from their original core business into a variety of food lines. Only one of the top twenty is foreign owned, Néstle Japan.

TOP TWENTY FOOD PROCESSORS IN JAPAN

Company	**Net Sales**	**End-User**	**Production**	**Procurement**
(Main Product Types)	**($ billion)**	**Channels**	**Location**	**Channels**
Kirin Brewery Co.	$13.01	Retail, HRI	Japan (11)	Importers,
(Beer, Soft Drinks, Liquors, Functional Foods, etc.)		(Dec. 2001)	USA	Direct
			China	
			Taiwan	
			Australia	
Suntory Ltd.	$11.95	Retail, HRI	Japan (18)	Importers,
(Liquor, Beer, Soft Drinks, Wine, etc.)		(Dec. 2001)	USA (1)	Direct
			Mexico (1)	
			UK (1)	
			France (6)	
			Hungary (1)	
			Spain (1)	
			Germany (1)	
			China (4)	
			Singapore (1)	
			Taiwan (1)	
			Australia (1)	
			New Zealand (1)	
Asahi Breweries, Ltd.	$11.94	Retail, HRI	Japan (9)	Importers,
(Beer, Liquors, Wine, etc.)		(Dec. 2001)	China (7)	Direct
			Bangkok (1)	
Nippon Meat Packers, Inc.	$7.88	Retail, HRI	Australia (5)	Importers,
(Beef, Pork, Chicken, Sausages, etc.)		(Mar. 2002)	USA (3)	Direct
			Brazil (1)	
			Thailand (2)	
			Canada (1)	
			Korea (1)	
			Taiwan (1)	
Ajinomoto Co., Inc.	$7.96	Retail, HRI	Japan (4)	Importers,
(Seasonings, Oil, Processed Foods, Beverages,		(Mar. 2002)	49 plants in	Direct
Dairy Products, Fine Chemicals, etc.)			22 countries	

Company (Main Product Types)	Net Sales ($ billion)	End-User Channels	Production Location	Procurement Channels
Yamazaki Baking Co., Ltd.	$6.04	Retail, HRI	Japan (27)	Importers,
(Breads, Japanese & Western Confectioneries,		(Dec. 2001)	USA (7)	Direct
Cooked Rice Products, etc.)			China (1)	
			Thailand (2)	
			Taiwan (1)	
Meiji Dairies Corp.	$6.20	Retail, HRI	Japan (26)	Importers,
(Milk, Beverages, Ice Cream, Yogurt, Desserts,		(Mar. 2002)	Thailand (3)	Direct
Dairy Products, Frozen Foods, Infant Formula,			UK (1)	
Baby Foods, Nutritious Foods, etc.)			Australia (1)	
			China (1)	
			Indonesia (1)	
Nichirei Corp.	$4.65	Retail, HRI	Japan (7)	Importers,
(Frozen Foods, Canned Foods, Retort Foods,		(Dec. 2002)	USA (2)	Direct
Beverages, Health Foods, etc.)			Netherlands (4)	
			Australia (2)	
			Thailand (3)	
			Brazil (2)	
			China (2)	
Sapporo Breweries Ltd.	$4.64	Retail, HRI	Japan (10)	Importers,
(Beer, Liquors, Wine, etc.)		(Dec. 2002)	China (1)	Direct
			Taiwan (1)	
Morinaga Milk Industry Co., Ltd.	$4.40	Retail, HRI	Japan (17)	Importers,
(Milk, Dairy Products, Ice Cream, Dessert,		(Mar. 2002)	Germany (1)	Direct
etc.)			Belgium (1)	
			China (1)	
Nippon Suisan Kaisha, Ltd.	$4.02	Retail, HRI	Japan (10)	Importers,
(Frozen & Chilled Seafood, Seasoning, Chemicals, etc.)		(Mar. 2002)	Affiliates in 18 Countries	Direct
Q.P. Corp.	$3.31	Retail, HRI	Japan (8)	Importers,
(Mayonnaise, Dressing, Sauce, Jam, etc.)		(Nov. 2001)	USA (2)	Direct
			Netherlands (2)	
			China (1)	
			Taiwan (1)	
			Thailand (1)	
			Bangkok (1)	
Itoham Foods Inc.	$3.88	Retail, HRI	Japan (10)	Importers,
(Beef, Pork, Chicken, Sausages, Deli, etc.)		(Mar. 2002)	China (1)	Direct
			New Zealand (1)	

Company	Net Sales	End-User	Production	Procurement
(Main Product Types)	**($ billion)**	**Channels**	**Location**	**Channels**
Nisshin Seifun Group	$3.31	Retail, HRI	Japan (13)	Importers,
(Flours, Frozen Foods, Pasta, Sauces, Health		(Mar. 2002)	Thailand (4)	Direct
Foods, etc.)			USA (2)	
			Canada (1)	
Snow Brand Milk Products Co., Ltd.	$3.01	Retail, HRI	Japan (20)	Importers,
(Milk, Dairy Products, Ice Cream, Liquor,		(Mar. 2002)	USA (1)	Direct
Baby Foods, etc.)			Australia (1)	
			Singapore (1)	
			China (2)	
			Thailand (1)	
Meiji Seika Kaisha, Ltd.	$3.01	Retail, HRI	Japan (8)	Importers,
(Confectionery, Functional Foods, etc.)		(Mar. 2002)	USA (1)	Direct
			Singapore (1)	
			China (1)	
			Indonesia (1)	
Otsuka Pharmaceutical Co., Ltd.	$2.80	Retail, HRI	Japan (6)	Importers,
(Frozen Foods, Retort, Pharmaceuticals, etc.)	(2001)			Direct
Toyo Suisan Kaisha, Ltd.	$2.71	Retail, HRI	Japan (7)	Importers,
(Frozen Seafood, Instant Noodles, Fish Ham &		(Mar. 2002)	USA (3)	Direct
Sausage, Seasonings, Soups, Retort Products,			China (3)	
Canned Foods, etc.)				
Nisshin Foods	$2.57	Retail, HRI	Japan (8)	Importers,
(Instant, Chilled & Frozen Noodles, Soups,		(Mar. 2002)	Overseas (25)	Direct
etc.)				
Nestle Japan	$2.44	Retail, HRI	Global sourcing	Importers,
(Coffee, Creams, Frozen Foods, etc.)				Direct

Source: Market Makers Inc.

Top 20 Food Processors in Japan:

Company	Address	Phone #/Fax #
Kirin Brewery Co.	2-10-1, Shinkawa, Chuo-ku Tokyo 104-8288	03-5540-3411 F: 03-5540-3547
Suntory Ltd.	5-4-31, Minami-Aoyoama, Minato-ku Tokyo 107-8616	03-3498-0331 F: 03-3498-1783
Asahi Breweries, Ltd.	1-23-1, Azumabashi, Sumida-ku Tokyo 130-8602	03-5608-5111 F: 03-5608-7121
Nippon Meat Packers, Inc.	3-6-14, Minami-Honmachi, Chuo-ku Osaka 541-0054	06-6282-3031 F: 06-6282-1056
Ajinomoto Co., Inc.	1-15-1, Kyobashi, Chuo-ku Tokyo 104-8315	03-5250-8111 F: 03-5250-8293
Yamazaki Baking Co., Ltd.	3-10-1, Iwamoto-cho, Chiyoda-ku Tokyo 101-0032	03-3864-3111 F: 03-3861-1280
Meiji Dairies Corp.	1-2-10, Shinsuna, Koto-ku Tokyo 136-8908	03-5653-0300
Nichirei Corp.	6-19-20, Tsukiji, Chuo-ku Tokyo 104-8402	03-3248-2112 F: 03-3248-2139
Sapporo Breweries Ltd.	4-20-1, Ebisu, Shibuya-ku Tokyo 150-8686	03-5423-2111 F: 03-5423-2050
Morinaga Milk Industry Co., Ltd.	5-33-1, Shiba, Minato-ku Tokyo 108-8384	03-3798-0111 F: 03-3798-0101
Nippon Suisan Kaisha, Ltd.	2-6-2, Otemachi, Chiyoda-ku Tokyo 100-0004	03-3244-7000 F: 03-3244-7287
Q.P. Corp.	1-4-13, Shibuya, Shibuya-ku Tokyo 150-0002	03-3486-3331 F: 03-3400-0660
Itoham Foods Inc.	4-27, Takahata-cho, Nishinomiya City Hyogo Pref. 663-8586	079-866-1231 F: 079-867-8672
Nisshin Seifun Group	1-25 Kanda-Kinshicho, Chiyoda-ku Tokyo 101-8441	03-5282-6666
Snow Brand Milk Products Co., Ltd.	13, Honshio-cho, Shinjuku-ku Tokyo 160-8575	03-3226-2111 F: 03-3226-2150
Meiji Seika Kaisha, Ltd.	2-4-16, Kyobashi, Chuo-ku Tokyo 104-8002	03-3272-6511 F: 03-3271-3528
Otsuka Pharmaceutical Co., Ltd.	3-2-27, Otedori, Chuo-ku Osaka 540-0021	06-6943-7722
Toyo Suisan Kaisha, Ltd.	3-50-11, Sendagaya, Shibuya-ku Tokyo 151-8507	03-3470-1691 F: 03-5412-7357
Nisshin Foods	4-1-1, Nishi-Nakajima, Yodogawa-ku Osaka 532-8524	06-6305-7711 F: 06-6305-7649
Nestle Japan	7-1-15, Gokodori, Chuo-ku Kobe City, Hyogo Pref. 651-0087	078-230-7000 F: 078-230-7100

Source: Market Makers Inc.

D. SECTOR TRENDS

Lacking an efficient agricultural sector, Japan has increasingly been a major net importer of basic foodstuffs for use in further processing. It is estimated by the Japanese Ministry of Agriculture, Forestry, and Fisheries that approximately 60% of Japanese food consumption on a caloric basis was supplied by imported foods in 2001. Relying on low cost imported food inputs, food processors have developed a multitude of items that are further processed in Japan for the general population.

Recently, however, in an effort to reduce costs, an increasing number of Japanese food processors have been going off-shore to source processed food items they have traditionally produced domestically. This has led to a "hollowing out" of some food industry sectors. For example, Nichirei, the largest frozen food company in Japan, now has joint venture operations in Thailand, China, Brazil, Australia, and the U.S. that are able to export products back to Japan. Ajinomoto, the second largest frozen food company, has 49 manufacturing plants in 22 countries. Nippon Ham, the largest meat processor in Japan, has joint ventures in Thailand, Australia and the U.S. that export processed meat and related products to Japan as well as sell locally. Even a traditional item such as bean paste is now manufactured in China specifically for export to Japan.

In general, foreign direct investment in the Japanese food processing market is minimal. Most U.S. brands that are produced in Japan are licensed or co-packed. Examples of this include Kraft cheeses (produced by Morinaga), Budweiser beer (produced by Kirin) and Tropicana (produced by Kirin).

At the consumer level, the following trends are driving the ways in which food processors are marketing their products.

1. Food Safety

Japanese consumers have been shocked by a series of food scandals and health scares during the past several years, including deaths related to E Coli O-157, mass sickness from tainted dairy products, BSE found in Japanese cows and most recently mis-labeling of meat and marine products. Consumer concerns about GMOs have also surfaced, and all retail products containing GMO materials are now required by law to be labeled as containing GMO ingredients on the package.

Numerous food recalls have taken place for even minor incidents of foreign materials in products. As a result, food processors are demanding that suppliers follow stricter quality assurance (QA) procedures, including HACCP systems, and are even asking for traceability to the point of origin of the product. This means an increased amount of work for suppliers but also presents opportunities for those who can guarantee the required quality.

2. Health

Functional foods designed to treat or help specific bodily functions are becoming increasingly popular. Examples include yogurt with lactic bacteria to help digestion and breads with added wheat germ. Blueberries have become popular as ingredients after being touted as an aid to eyesight, and have appeared in numerous new products such as gum, yogurt, bagels and cookies.

Polyphenol, which gained popularity as an aid to reduce cholesterol build-up as well as with its anti-oxident properties, has become popular not only in red wine but also chocolates, dried fruits, etc.

Consumers have been switching from sugar, soft drinks, cakes and ice creams to low calorie teas, mineral water, and other lower calorie-containing items.

The official definition of functional foods and drinks in Japan is "foods which are expected to have a specified effect on health due to the relevant constituents or foods from which allergens have been removed." In practice the products which are considered to be functional foods are products containing functional ingredients such as dietary fiber, oligosaccharides, non-cariogenic sweeteners, calcium, iron, mineral absorption promoters, beta-carotene, PUFA (DHA and EPA), chitosan, specified soy protein, collagen, polyphenols, lactic acid bacteria cultures, soy iso-flavones and germinated brown rice (GABA).

Organic foods and those marketed as all natural are also gaining popularity. This includes processed items as well as fresh vegetables.

3. Diversification of the Diet

The trend toward diversification of the Japanese diet continues to grow. Every year new "hit" food items based on foreign products make their mark on the diet in Japan. Examples over the past half decade include pasta, pizza, olive oil, tiramisu, nata de coco, cinnamon buns, Belgian waffles, and scones. More importantly, the trend toward internationalization of the diet is clearly reflected in the growing presence of restaurants in Japan featuring ethnic food. From the U.S., names such as McDonald's and KFC have long made their mark on the diet culture. The "internationalization" of the Japanese diet offers U.S. exporters an opportunity to supply ingredients to meet this increasing demand.

4. Low Cost

Twelve years ago at the height of the economic bubble in Japan, consumers were spending freely on luxurious food items. Since then, the recessionary environment has caused consumers to revert to lower cost food products to save money. The successful companies have grown by offering low priced items, whether it be McDonald's value set or Yoshinoya's 280 yen beef bowl set. This has led to business opportunities for U.S. exporters who can provide lower cost inputs for food processors and end-users who are trying to reduce costs.

5. Growth of Convenience Foods

The increasingly hectic pace of Japanese lifestyle has led to the growth of processed foods as a replacement for meals made from scratch at the home. The best example of this is the rapid expansion of convenience stores over the past decade, which specialize in a large variety of pre-prepared meals, including not only traditional bento lunch boxes and onigiri (rice ball), but pasta dishes, sandwiches, salads, baked goods, and desserts as well. There are now over 42,000 convenience stores in Japan or one for every 2,800 Japanese citizens. Due to the increasing consumers' food safety and health consciousness, the demands on Japanese food processors to use natural additives and preservatives for those products in convenience stores has likewise increased.

III. COMPETITION

The United States is the largest supplier of agricultural products to Japan, with a 34 percent market share and 2001 import value totaling approximately $11.1 billion. Other major suppliers of agricultural products to Japan are China with a 13 percent market share, Australia (9 percent), Canada (7 percent) and Thailand (5 percent).

A brief review by major product category follows. The market shares stated in this section are based on CY 2001 imports into Japan as reported by the Customs and Tariff Bureau of the Japan Ministry of Finance and do not reflect Japanese domestic production.

1. Red Meats and Poultry Meat Products

The U.S. is the largest supplier of fresh, chilled, and frozen red meats to Japan with imports from the United States totaling $3.1 billion in 2001 and a market share of 46%, followed by Australia and Denmark with 17% and 15% market shares respectively. For poultry products, the U.S. is the third largest supplier with 13% of the import market after China (44%) and Thailand (29%).

2. Fish and Seafood Products

The U.S. is the second largest supplier of edible fish and seafood to Japan after China. Imports from the U.S. totaled $1.4 billion in 2001 representing 11% of total imports. Major imported items from the U.S. include roe and urchin egg ($570 million with 38% market share), surimi ($237 million/41%), Salmon ($127 million/19%), and crab ($71 million/ 8%). Other major sources of edible fish and seafood products for Japan in 2001 were China ($2.1 billion with 16% market share), Thailand ($1.1 billion/ 8%), Russia ($1.0 billion/ 8%), and Indonesia ($907 million/7%).

3. Dairy Products

The U.S. is the third largest supplier of dairy products to Japan after Australia and New Zealand. Japanese imports from the U.S. were $217 million (14% market share) in 2001, compared to imports from Australia with $286 million (19%) and New Zealand with $248 million (17%).

4. Fruits & Vegetable

The U.S. is the largest supplier of imported fresh fruits into Japan with 2001 imports of $537million representing a 40% market share followed by the Philippines (30%) and Ecuador (7%). The U.S. is the second largest supplier of fresh vegetables to Japan with 2001 imports of $848 million occupying a 26% market share. China was the leading supplier with 41% of the import market.

For processed fruit & vegetables, The U.S. is the second largest supplier after China. Imports from the US totaled $848 million in 2001 and comprised 25% of total imports compared with $1.4 billion (41%) from China. Frozen items including potatoes, corn, beans, peas, and mixed vegetables were the leading import items from the U.S.

5. Health Related

The U.S. is the dominant supplier of food supplements to Japan. Imports into Japan of food supplements from the U.S. in 2001 were $59.6 million and accounted for a 98% market share.

6. Confectionery Products

The U.S. is the leading supplier of cookies and biscuits to Japan with imports totaling $8.4 million in 2001 accounting for a market share of 21%. For chocolate and chocolate-based confections, the U.S. is the second largest supplier accounting for $42.8 million in total imports and a market share of 14%.

7. Bakery Products

The U.S. is the leading supplier of bread, pastry, and other baking items to Japan with imports of $31.9 million and a market share of 20% in 2001. The U.S. is also the leading supplier of mixes and dough for the preparation of bakery products with imports totaling $27.2 million accounting for a 43% market share in 2001, followed by Singapore with a 15% share.

8. Snack Foods/Tree Nuts

The U.S. is the leading supplier of snack foods to Japan with imports surpassing $2 billion in 2001 accounting for about 61% of total market share. Imports from China came to a distant second with a 9% market share. For tree nuts, the U.S. is the second largest supplier to Japan after China. Imports from the US totaled $137 million (primarily almonds and walnuts) with a 30% share compared with $184 million (40%) from China.

9. *Beverages*

The U.S. is the leading supplier to Japan of imported fruit and vegetable juice with imports totaling $406 million in 2001 and a market share of 37%. Brazil was the second largest supplier with a share of 10%. For wine and beer, the U.S. is the third largest supplier at $87 million and a 10 percent market share following France and Italy. Imports from France were $476 million representing 53% of total import value followed by Italy with $113 million and a 13% share. For ethyl alcohol based beverages that have an alcoholic strength less than 80% (spirits, liqueurs and the like), the U.S. was the third largest supplier in 2001, with sales totaling $87.4 million and a share of 11%.

10. *Dry Goods and Condiments*

The U.S. is a major supplier of dry goods and condiments to Japan. For the category of sauces, mixed condiments, and seasonings, imports from the U.S. came to $30.6 million in 2001, occupying a market share of 22 percent followed by Thailand with 16.5 percent.

The U.S. is the largest exporter of soups and broths to Japan in 2001, with imports of $14 million and a market share of 45%. The U.S. is the dominant supplier of tomato ketchup, with imports reaching $4.2 million in 2001 and a market share of 82 percent.

For pasta products (including spaghetti, macaroni, noodles, lasagna, and ravioli), the U.S. is the fourth largest supplier with an import value of $15.7 million and a market share of 8% after China (37%), Italy (31%), and Thailand (10%).

11. *Specialized Food Ingredients*

The U.S. is the leading exporter to Japan of vegetable protein substances used as binders and extenders used in frozen foods, bread, meat products and seafood products such as kamaboko (fish cake). Imports of vegetable protein substances from the U.S. were $10.2 million in 2001, representing a market share of 74%.

Source: Customs and Tariff Bureau of the Japan Ministry of Finance

IV. BEST PRODUCT PROSPECTS

Based on current macro-trends, the following food products and ingredients have the potential to do well in the future. For many of these no published figures for market size are available.

A. PRODUCTS PRESENT IN THE MARKET WHICH HAVE GOOD SALES POTENTIAL

1. *Health and Functional Foods*

The market for health related and functional foods is expected to continue to expand in the future. Ingredients which should benefit include dietary fiber, oligosaccharides, non-cariogenic sweeteners, calcium, iron, mineral absorption promoters, beta-carotene, PUFA (DHA and EPA), chitosan, specified soy protein, collagen, polyphenols, lactic acid bacteria cultures, and soy iso-flavones. The Japan Health Food and Nutrition Food Association released figures for sales of FOSHU (Foods For Specified Health Use) items that showed the market for the finished products grew to $3.4 billion (412 billion yen) in 2001 from $1.9 billion (227 billion yen) in 1999, as follows:

	Sales of FOSHU Items (2001)	
Type	**Billion Yen**	**$000**

Lactic Acid Bacteria	317.1	2,594,700
Dental Caries Related	18.7	153,000
Blood Sugar Related	18.4	150,600
Lipid Metabolism	15.2	124,400
Dietary Fiber	12.8	104,700
Minerals	11.4	93,300
Blood Pressure Related	10.0	81,800
Oligosaccharides	5.6	45,800
Cholesterol Related	2.8	22,900
Total:	412.0	3,371,200
Source: Japan Health Food and Nutritional Food Association		

Other health related food ingredients becoming more popular include: Collagen (for joints and skin), vitamin C, nutritional supplements such as chondroitin and pycogenol, aloe, noni, and prune extract. Food supplements with vitamins should also continue to grow in the future.

The U.S. is or can be a major supplier of many of these items.

2. *Organic Foods*

While still a niche market, the demand for organic products is steadily increasing. As a result of the recent establishment of national organic standards in the U.S. by USDA and agreement with Japan on certification procedures for organic products exported to Japan (See www.ams.usda.gov/nop/NOP/TradeIssues/Japan.html), the opportunity for organic products will expand in the future. Organic soybeans, frozen vegetables & fruits, juice concentration are examples of poular organic ingredients. Competition for the organic market will come from Australia and New Zealand among others.

3. *Dietary Products*

The use of sweeteners such as xylitol and sorbitol has surged since 1997 when these items were approved for use in products such as chewing gum. The market for sugarless gum rose from $167 million (20 billion yen) in 1996 to $492 million (59 billion yen) in 2001. Warner Lambert introduced Recaldent chewing gum in 2000 which contained not only xylitol, but also casein phospho-peptide (CPP) and amorphous calcium phosphate (ACP) to increase calcium in teeth. Sales of this brand of gum were over $42 million (5 billion yen) last year.

4. *Beverage*

Flavored teas, coffees, juices and related waters are becoming more popular in Japan. For example Coca Cola launched a new line of flavored fruit drinks in 2000 called QOO. The beverages feature four varieties of fruit juices (20% levels): orange, apple, white grape, and peach, which are fortified with calcium and vitamin C. Sales were $308 million (37 billion yen) in its first year.

Wine is also expected to continue to grow in the future as less hard liquor is consumed. California and other West Coast wines can participate in this growth with good marketing. However, the market is fairly saturated as many other producing countries including France, Italy, Chile and Australia have been expanding their penetration in the marketplace.

5. *Ethnic Foods*

The popularity of ethnic foods is expected to continue to grow and with it the market for ingredients. Tex-Mex products such as tortillas and salsa are one example. One major U.S. fried chicken fast food chain has sold over 100 million tortillas imported from the U.S. since it launched a burrito-like item two years ago. Wrap sandwiches featuring flavored tortillas are also beginning to appear in the marketplace. Asian cuisines including Vietnamese, Thai, and Korean Foods are also popular. Japanese food manufacturers have developed, for example, special condiments for Korean spicy dishes for use in both home cooking and food service. Also, many Italian food items such as spaghetti sauce, olive oil, and pasta have become regular items even for home cooking and consequently, Japanese food manufactures have developed a variety of ready-to-use spaghetti sauces in recent years. Pizza chains such as Pizza Hut and Domino's have been successful in expanding the market for pizza. The U.S. is a major supplier of meat toppings as well as tomato based pastes and crust.

6. *Frozen Foods and Convenience Foods*

Frozen foods are growing in usage. Dough products in particular have done well in recent years. For example, the launch of Cinnabon two years ago in Japan sparked a surge in the sales of cinnamon buns in Japan. U.S. suppliers provided not only the raw ingredients but also finished dough for many customers. Bagels are also becoming more well known in Japan. More recently, scones have increased in popularity after being introduced by Starbucks and are now on the menu of other fast food giants such as McDonald's. Frozen dough food exports to Japan increased from 46,000 MT in 1994 to 77,000 MT in 2001 and continue to represent a potential growth area for the future.

7. *Other*

Other items with potential for increased sales include the following products:

Processed meats such as pre-cooked bacon and sausages that are microwavable have the potential for growth with foodservice groups such as hotels. Turkey is also a product traditionally unfamiliar to Japan, has made inroads by its introduction by companies such as Subway Japan. Smoked turkey legs are also a very popular item in Tokyo Disney and is getting widespread exposure as a result. Likewise, the expansion of western style coffee shops (e.g. Starbucks, Seattles Best, Tullys, etc.) has presented opportunities for deli meats, cheese, soup and pastries.

The U.S. is a major supplier of bulk commodities such as wheat and soybeans and should remain so in the Japanese food processing sector.

Other products including frozen potato, chilled pork, dried fruits and nuts, surimi, and roe and urchin have also been successful.

B. PRODUCTS NOT PRESENT IN SIGNIFICANT QUANTITIES BUT WHICH HAVE

GOOD SALES POTENTIAL

1. *<u>Substitutes for Beef Flavorings and Gelatins</u>*

Because of the BSE problem in Japan last year, many Japanese food processors using beef as a base for flavorings or in gelatin form have been seeking substitutes. Types of products using beef flavorings in Japan include snack items such as potato chips, and seasonings for broths and soups. Substitutes include chicken, pork, and fish based products.

2. Functional Foods for the Elderly

Functional foods that can help afflictions of the elderly are likely to experience significant growth in the future. The aging of the Japanese population will create a much larger market for food products for this segment. In 2002 an association for Foods for the Elderly was formed by 39 companies including Meiji Milk, QP, Itoham, Nichirei, Nichiro and others. The main emphasis is on developing soft, easily chewable foods as a first step, including fish, egg and meat products, carrot and apple based foods. The association estimates the market will expand to $166 million (20 billion yen) by 2005 from $50 million (6 billion yen) currently.

3. *Nuts*

Unlike almonds and walnuts, pecans have not established a market in Japan. However, with proper marketing and promotion, they could be successful ingredients for items such as confections, cakes, ice cream and the like.

C. PRODUCTS NOT PRESENT BECAUSE THEY FACE SIGNIFICANT BARRIERS

1. Items containing prohibited ingredients or excess amount of allowable limits

Because of the strict Japanese regulations on food additives, some U.S. food products containing prohibited additives or excess amount of allowable limits cannot enter Japan. It is highly recommended that U.S. exporters check their product compliance as a first step when considering business in Japan.

2. High Tariff Rate Products/Quota restricted items

A variety of dairy products including milk, butter, and yogurt face high tariff rates, which makes imported products uncompetitive with domestic products. Likewise, sugar, and rice face very high tariff rates. It is wise to check the tariff rates as well as quota restrictions for your classification of product. Quotas still exist on some items such as dry beans.

3. *Quarantine restricted items*

Numerous fresh produce products are prevented from entering Japan due to the Japanese plant quarantine regulations. For example, fresh potatoes are prohibited to import. The list for prohibited produce items can be obtained from APHIS, Tokyo as well as through ATO offices in Japan.

V. POST CONTACT AND FURTHER INFORMATION

For those with questions or seeking additional assistance, please contact the U.S. Agricultural Trade office (ATO) in Osaka or Tokyo or Agricultural Affairs office at the following address:

ATO Osaka	American Consulate General
	2-11-5, Nishi Tenma, Kita-ku, Osaka City, Osaka 530-0047
	Tel: 81-6-6315-5916 Fax: 81-6-6315-5906
ATO Tokyo	Toshin Tameike Bldg. 8F.
	1-1-14, Akasaka, Minato-ku, Tokyo 107-0052
	Tel: 81-3-3505-6050 Fax: 81-3-3582-6429
Agricultural Affairs, Tokyo	American Embassy, Tokyo
	1-10-5, Akasaka, Minato-ku, Tokyo 107-8420
	Tel: 81-3-3224-5106 Fax: 81-3-3589-0793

FAS offices in Japan also issue periodic reports on the Japanese food industry and specific product categories. Importer lists are also available. For additional information, please visit the ATO Japan home page at http://www.atojapan.org/market.html.

Note: It is highly recommended that U.S. exporters verify relevant import requirements with their foreign customers, who normally have the most updated information on local requirements, prior to exportation. FINAL IMPORT APPROVAL OF ANY PRODUCT IS SUBJECT TO THE IMPORTING COUNTRY'S RULES AND REGULATIONS AS INTERPRETED BY BORDER OFFICIALS AT THE TIME OF PRODUCT ENTRY.